

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION

MINUTES OF MEETING

Wednesday, September 14, 2011

The Board of Administration met on Wednesday, September 14, 2011 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 9:00 a.m. and the following members were present:

Rob Feckner, President
George Diehr, Vice President
Michael Bilbrey
Terry McGuire for John Chiang
JJ Jelincic
Richard Costigan
Steve Coony for Bill Lockyer
Priya Mathur
Tony Oliveira
Howard Schwartz for Ronald Yank

Board of Administration Members excused: Dan Dunmoyer, Henry Jones and Lou Moret

AGENDA ITEM 3 - APPROVAL OF AUGUST 2011 MEETING MINUTES

On **MOTION** by JJ Jelincic, **SECONDED** by Richard Costigan, and **CARRIED** that the August 17, 2011 Open Session minutes be approved as presented.

AGENDA ITEM 4 - PRESIDENT'S REPORT

President Feckner reported on the following Board actions:

- \$800 million has been earmarked for investments in California's infrastructure.
 CalPERS staff is actively looking for investments that will provide healthy investment returns while contributing to jobs and economic growth.
- A substantial portion of the Board Governance Project is completed and the Board will be voting to adopt a set of ten governance reforms designed to strengthen the transparency, accountability and integrity of the Fund. President

Feckner thanked all of the Board, staff and consultants who contributed to the project.

AGENDA ITEM 5 – CHIEF EXECUTIVE OFFICER'S REPORT

Anne Stausboll reported on the following recent activities:

- CalPERS staff is in the final stages of system conversion before the launch of the new integrated myCalPERS system. All is going well although the initial launch is expected to have some temporary impact on workload and customer service levels.
- The annual California State Employees' Charitable Campaign (CSECC) will kick off on Monday, October 3. Fundraising activities include a silent cake auction, a senior leadership competition and display booths of some participating nonprofit organizations.
- CalPERS will be hosting its annual Employer Conference on October 24 and 26 at the Long Beach Convention Center. A full schedule is available on the CalPERS website.

Ms. Stausboll recognized the efforts of the Office of Public Affairs and the Technology Services and Support Division, who recently developed a new Forms and Publications Center that combines publication directories for both members and employers into one area.

Ms. Stausboll also thanked the Board members who supported the ice cream social last month.

AGENDA ITEM 6 - CHIEF INVESTMENT OFFICER'S REPORT

Joe Dear, Chief Investment Officer (CIO), presented the CIO report to the Board. Items included:

 August results show the impact of the turmoil that has roiled the investment environment since the start of the fiscal year. In August, the Fund had a loss of 2.96 percent. For Fiscal Year-to-Date, the Fund is down 3.18 percent.

AGENDA ITEM 7 – INVESTMENT COMMITTEE

George Diehr, Chair, Investment Committee, presented the Committee Summary report to the Board. The Committee met on Monday, September 12, 2011.

Additional information may be found in the September 12, 2011 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for October 17, 2011 in Sacramento, California.

AGENDA ITEM 8 -RISK MANAGEMENT COMMITTEE

Tony Oliveira, Chair, Risk Management Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, September 13, 2011.

Additional information may be found in the September 13, 2011 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for October 17, 2011 in Sacramento, California.

AGENDA ITEM 9 – BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

The Committee did not meet in September.

AGENDA ITEM 10 - HEALTH BENEFITS COMMITTEE

Priya Mathur, Chair, Health Benefits Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, September 13, 2011.

Additional information may be found in the September 13, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED** with nay votes by Grant Boyken and Howard Schwartz, and one abstention by Richard Costigan, the Board approved the following:

 Extension of the existing Blue Shield of California Health Maintenance Organization contract to December 31, 2013, provided Blue Shield agrees to appropriate contract revisions satisfactory to CalPERS staff.

The next meeting of the Health Benefits Committee is scheduled for October 18, 2011 in Sacramento, California.

AGENDA ITEM 11 – FINANCE COMMITTEE

The Committee did not meet in September.

AGENDA ITEM 12 -BOARD GOVERNANCE COMMITTEE

George Diehr, Vice Chair, presented the Board Governance Committee Summary report to the Board. The Committee met on Tuesday, September 13, 2011.

Additional information may be found in the September 13, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

Powers Reserved

 Adopt the proposed Powers Reserved (Attachment 1) for the Board and realign the CalPERS Statement of Governing Principles, committee charters and delegations, and other governance documents to reflect the newly-defined powers reserved, as appropriate.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

Committee Structure

- Ensure the process for nominating and electing committee chairs and vice chairs is transparent and well understood.
- Adopt a policy to review and update committee charters annually and update as needed.
- Move governance items out of BPAC into the Board Governance Committee and move administrative items out of BPAC and into Finance (renamed Finance & Administration Committee).
- Reduce the number of committees by consolidating the Health Benefits
 Committee and the remaining elements of BPAC into the Pension and Health Benefits Committee.
- Reconfigure Finance and Risk Management to improve independent reassurance by consolidating all reassurance activities into a new Risk and Audit Committee.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

Setting the Board Agenda and Improving Reporting to the Board

- Setting the Board agenda is tied directly to the annual planning calendar.
- The Board agenda is tied directly to the Board's approval and oversight responsibilities and related outcomes.
- The President and CEO, in consultation with the Committee Chairs, actively
 engage the Board in setting the strategic agenda, and review and adjust
 quarterly.
- The CEO engages the Board in collaboratively developing the strategy.

- The Board, working with the Executive Staff, develops and adopts a concise, consistent framework for agenda decision items which includes, for example, the recommendation, description and analysis of alternatives considered, pros and cons of the recommendation, risks of action and inaction, long-term implications, and costs and benefits. This framework is to be used by the Board and Committees for all agenda decision items.
- The Board will maintain a list of significant topics/issues which are of interest to the full Board but are delegated for deliberation and recommendation to one of the Board committees (e.g., pension soundness, organization strategy). Each Committee will report on its discussions and deliberations of significant issues and present its recommendations to the full Board to ensure that each member is adequately informed. Likewise, each Board member has a responsibility to stay apprised of key issues being addressed by the various committees.
- The Board and each Committee will review all current information reports to determine those which are statutorily required and those which may be streamlined or removed.
- The Board will define its information requirements, the thresholds that trigger Board attention for each topic, and the frequency of standard reports.
- The CEO is responsible for keeping the Board appropriately informed and escalating issues on a timely basis.
- The Board will make use of consent agendas to bundle items which do not require debate into a single voting package to expedite approval of routine matters.
- The President and CEO are responsible for managing the effective and efficient flow of information to the Board without being overly detailed.
- The CEO will assign a specific senior executive to coordinate with each Committee and collaboratively develop the annual agenda proposals, and the effective and efficient flow of pertinent information is a compensable performance goal for the responsible executive.
- Each Committee maintains a standing set of questions pertinent to recurring decisions or oversight for that committee. This would typically include questions related to the potential outcomes of a decision and their impact on the goals of CalPERS (e.g., What is the long-term impact of this decision on our members? How does this decision mitigate risk?)
- Adopt a policy whereby committee chairs are responsible for receiving and prioritizing (based upon established policies) ad hoc requests for new reports and analyses, taking into account the effect on staff time and resources required to produce such reports and analyses.

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- A sunset review of all reports will be conducted at appropriate intervals to determine their continuing utility.
- A Board portal will be implemented to facilitate effective decision making and use of Board member time.

The next meeting of the Board Governance Committee is scheduled for September 13, 2011 in Sacramento, California.

AGENDA ITEM 13 – PERFORMANCE AND COMPENSATION COMMITTEE

George Diehr, Vice Chair, Performance and Compensation Committee, presented the Committee Summary report to the Board. The Committee met on Monday, September 12, 2011.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

 Acceptance of staff's recommendation to approve the first and final reading of the 2011-12 Performance Plan for the Senior Investment Officer, Alternative Investments.

Additional information may be found in the September 12, 2011 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for November 14, 2011 in Sacramento, California.

AGENDA ITEM 14 – EXTERNAL AFFAIRS UPDATE

Robert Glazier, Director, External Affairs, provided an update on External Affairs and reported on the following:

- External Affairs will be working closely with the Investment Office on outreach to CalPERS private and public sector partners in support of the infrastructure investment project.
- External Affairs will also be working closely with the Labor Coalition and the National Association of State Retirement Administrators (NASRA) on outreach to all stakeholders regarding the upcoming hearing on proposed changes, and the potential impacts of those changes, by the Governmental Accounting Standards Board (GASB).

AGENDA ITEM 15 – BOARD'S STATE LEGISLATIVE PROGRAM/BOARD'S POSITION ON STATE LEGISLATION

Danny Brown, Chief, Governmental Affairs, provided an update on State Legislation and CalPERS sponsored bills and reported on the following:

- At the close of the current legislative session a number of pension bills were held on the floor in favor of developing a comprehensive pension reform package to be reported to the Legislature in January. Assembly Member Warren Furutani has been named to chair the interim conference committee.
- SB 350 (Negrete McLeod) has been vetoed by the Governor pending inclusion in comprehensive pension reform.
- Assembly Member Feuer plans to bring his health rate regulation bill back next year.

AGENDA ITEM 16 – BOARD'S FEDERAL LEGISLATIVE PROGRAM/BOARD'S POSITION ON FEDERAL LEGISLATION

Tom Lussier, CalPERS Federal Liaison provided updates on federal legislation and reported on the following:

- The SEC has decided not to appeal the DC Circuit Court decision on proxy access. Staff will continue to meet with members of the Commission about the basis for this decision and next steps.
- The National Coalition on Health Care (NCHC) has appointed John Rother as President and CEO.
- Staff has concerns that tax policy, Social Security and health care may be affected by the so-called Super Debt Committee that is charged with proposing major federal budget reductions for consideration by Congress. The first public hearing was held yesterday.
- The Coalition to Preserve Retirement Security continues to oppose federal imposition of Social Security on state and local employees. They will soon release a report that shows the increased tax obligation for California would exceed \$15 billion in the first five years of that mandate.

AGENDA ITEM 17 - PUBLIC AFFAIRS UPDATE

Brad Pacheco, Division Chief, Public Affairs, provided an update on Public Affairs and presented the Strategic Communications Report.

 CalPERS will conduct a free one-hour retirement information webinar for members on Friday, October 7 at 11:00 a.m. A special section on the CalPERS website has been launched for the open enrollment period that begins in October.

Agenda Item 18 was moved to be presented after Agenda Item 19.

AGENDA ITEM 19 - PENSION SYSTEM RESUMPTION (PSR) PROJECT UPDATE

Karen Ruiz, PSR Project Manager, presented status reports on the PSR and Enterprise Transition Management (ETM) Projects.

- The system conversion began on Friday, September 2, and the project is on track with the activities necessary to launch on Monday, September 19.
- The project team is working closely with Accenture on the post-launch release plan to deliver remaining functionality that was not included in the initial launch.

John Nichols, Project Manager, Accenture, reported that the project team is now preparing to adapt and respond to the new system and keep it on track toward becoming a stable production system.

Chris Jasper, KPMG, Independent Project Oversight (IPOC), generally concurred with the conditions stated in the PSR report, and is satisfied that substantive improvements have been made in key areas.

Mr. Robert Frerichs, Group Chief Executive, North America, Accenture, was present to express his continued commitment to the project and confidence in its success. He especially thanked Dale Jablonsky and Karen Ruiz for their close partnership over the past two years.

President Feckner, Priya Mathur and Howard Schwartz thanked the entire project team for their hard work and many long hours toward making the project a success.

AGENDA ITEM 18 – SEPARATE STATE CONTRIBUTION RATES FOR CSU

Alan Milligan, Chief Actuary, presented this agenda item to the Board at the request of the California Department of Finance (DOF) that CalPERS set a separate rate for California State University (CSU). Under Control Section 3.60 of the state Budget Act, the CalPERS Board now has discretionary authority to set multiple rates.

Mr. Milligan's recommendation is that the Board set separate rates for the State Miscellaneous Tier 1 non-CSU employees, State Miscellaneous CSU Tier 1 employees, State Peace Officer and Firefighter non-CSU employees, and State Peace Officer and Firefighter CSU employees.

Mr. Richard Gillihan and Ms. Koreen Martone of the DOF were present to answer Board questions.

Four members of the public were on hand to speak:

- Terry Brennand, Service Employees' International Union (S.E.I.U.), urged the Board to delay a decision on separate rates pending current bargaining.
- Neal Johnson, S.E.I.U. Local 1000, argued against separate rates.
- Sherrie Golden, California State Employees' Union, and Lillian Taiz, California Faculty Association, also urged the Board to delay a decision on separate rates pending current bargaining.

On **MOTION** by George Diehr, **SECONDED** by Richard Costigan, the Board voted on postponing a decision on staff's recommendation to approve separate rates for CSU until the settling of the CSU union contracts. By an electronic vote of 4 to 5 with 0 abstentions, the Board did not approve the motion.

On **MOTION** by Howard Schwartz, **SECONDED** by Grant Boyken, the Board voted on approval of staff's recommendation to set separate rates for the State Miscellaneous Tier 1 non-CSU employees, State Miscellaneous CSU Tier 1 employees, State Peace Officer and Firefighter non-CSU employees, and State Peace Officer and Firefighter CSU employees. By an electronic vote of 5 to 5 with 0 abstentions, the Board did not approve the motion.

AGENDA ITEM 20 - DIVERSITY UPDATE

Lindy Plaza, Chief Diversity Officer, Internal Operations, provided an update on CalPERS Diversity program and reported on the following:

- Recommendations made by the Diversity and Inclusion Focus Group are currently being considered for inclusion in the 2011-12 Diversity and Inclusion Business Plan.
- Staff is in compliance with the State Personnel Board mandate to complete and submit the Annual Workforce Analysis for Fiscal Year 2011-12.
- CalPERS Disability Advisory Council has provided members with education and training on accommodating persons with disabilities.
- Last month the Franchise Tax Board contacted CalPERS diversity staff for information sharing as they begin to develop their own program.
- The Human Resources Division is developing diversity and inclusion hiring practices.
- October is National Disability Awareness Month.

 In November, the executive team will take part in Diversity and Inclusion Development training.

Janine Guillot, Chief Operating Investment Officer, Investment Office, provided an update on diversity activities in the Investment Office and reported on the following:

- In July, the Investment Committee approved a \$200 million Real Estate Emerging Manager Program. The Investment Office hosted an information workshop in June that attracted 72 participants.
- Staff participated in the informational hearing on emerging manager utilization that was hosted by Senator Curren Price and the California Public Utilities Commissioner Tim Simon.
- Investment staff hosted members of the New America Alliance in August and developed web pages to launch the Diverse Director Data Source Initiative.
- Three key initiatives under development are the Alternative Investment Manager program, Emerging Real Estate Managers program, and the Diverse Director Date Source.

Gina Ratto, Deputy Counsel, Legal Office, reported on diversity activities in the Legal Office and reported on the following:

• The Legal Office has created pools to expand the diversity of outside counsel in four specialty areas: health care law; labor and employment law; bankruptcy; and immigration. The Legal Office is also in the process of selecting firms for a fifth specialty area, business litigation.

The Board of Administration Open Session recessed at 11:10 a.m. and reconvened at 11:20 a.m.

AGENDA ITEM 21 - DRAFT AGENDA FOR October 19, 2011 MEETING

No changes were made.

AGENDA ITEM 22 – BOARD MEETING CALENDAR

President Feckner noted that the dates have changed for the January 2012 off-site meeting.

AGENDA ITEM 23 – BOARD TRAVEL APPROVALS

On **MOTION** by Richard Costigan, **SECONDED** by Michael Bilbrey and **CARRIED**, the Board approved the Board travel.

AGENDA ITEM 24 - GENERAL COUNSEL'S REPORT

Peter Mixon, General Counsel, reported on the monthly new case report and assignment matrix.

AGENDA ITEM 25 - PROPOSED DECISIONS OF ADMINISTRATIVE LAW JUDGES

Peter Mixon, General Counsel, reported on proposed decisions of Administrative Law Judges, cases 25A through 25F.

On **MOTION** by Priya Mathur, **SECONDED** by Grant Boyken and **CARRIED**, the Board approved accepting proposed decisions of Administrative Law Judges for 25A through 25F, with one abstention by JJ Jelincic on 25E.

AGENDA ITEM 26 - PETITION FOR RECONSIDERATION

On **MOTION** by Richard Costigan, **SECONDED** by George Diehr and **CARRIED**, the Board approved accepting staff's recommendation to deny the Petition for Reconsideration by Connie Peters.

AGENDA ITEM 27 - PUBLIC COMMENT

Neal Johnson, S.E.I.U. Local 100, requested that the Board maintain more than the previous 11 months' agendas on the CalPERS website.

The Board of Administration Open Session recessed into Closed Session at 11:30 a.m. to consider Agenda Item 28 and reconvened into Open Session at 2:00 p.m.

AGENDA ITEM 28 – ANNUAL EMPLOYEE PERFORMANCE REVIEW AND UPDATES

President Feckner reported on the personnel actions the Board took in Closed Session including the recommendations by the Performance and Compensation Committee:

- By a vote of 7 to 2 with 0 abstentions, the Board approved the 2010-11 annual performance awards for the Chief Executive Officer, Chief Investment Officer, General Counsel, and Chief Actuary.
- By a vote of 5 to 4 with 0 abstentions, the Board approved the 2011-12 base pay increases for the Chief Executive Officer, Chief Investment Officer, General Counsel, and Chief Actuary.
- By a vote of 5 to 3 with 0 abstentions, the Board approved the 2010-11 annual performance awards for the Chief Operating Investment Officer and Senior Investment Officers.

- By a vote of 5 to 3 with 0 abstentions, the Board approved the 2011-12 base pay increases for the Chief Operating Investment Officer and Senior Investment Officers as recommended by the Committee.
- By a vote of 5 to 3 with 0 abstentions, the Board approved the recommendations of the Performance and Compensation Committee to grant modified 2011-12 base pay increases to the Senior Portfolio Managers and Portfolio Managers.

There being nothing further to come before the Board of Administration, the meeting adjourned at 2:01 p.m.

The next Board of Administration meeting is scheduled for October 19, 2011 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer